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December 14, 2007

## **AGENDA ITEM 9**

**TO: MEMBERS OF THE FINANCE COMMITTEE**

- I. SUBJECT:** Fiscal Year 2007-08 Mid-Year Budget Revisions  
(Second Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATION:**
- (1) The Committee accept the proposed California Public Employees' Retirement Systems (CalPERS) 2007-08 mid-year increase of \$12,610,000 and 54 positions for a total Administrative Budget of \$328,916,948 and 2,217 positions and recommend the Board of Administration approve the Budget as a second reading.
  - (2) The Committee accept the proposed CalPERS 2007-08 mid-year increase of \$18,369,000 to the Enterprise Projects Budget for a total budget of \$101,925,972 and recommend the Board of Administration approve the Budget as a second reading.
  - (3) The Committee recommend the Board of Administration approve the transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the 2007 Budget Act, and to the Legislative Analyst's Office and the State and Consumer Services Agency.

#### **IV. ANALYSIS:**

This item reflects a proposed change to the first reading of the 2007-08 mid-year budget revision. In November, the Board approved an augmentation of \$10.1 million and 49 positions to the Administrative Budget in the current year. The revised mid-year proposal for the second reading of the Administrative Budget now totals \$12.6 million and 54 positions. Attachment 1 provides a summary of the recommended mid-year budget requests.

Staff recommends approving an additional five positions and funding of \$2,497,000 in 2007-08 and \$2,933,000 ongoing for Investment Operations. These resources are related to implementing the Real Estate Investment Portfolio Strategic Plan previously approved by the Finance Committee.

All dollar amounts and position counts have been updated in this item (including all attachments) to reflect the proposed augmentation. Other than the adjustment identified above, all other amounts remain unchanged since the first reading.

#### **ADMINISTRATIVE BUDGET**

The proposed mid-year 2007-08 Administrative Budget is \$328,916,948 and 2,217 positions. This reflects a 4.0 percent growth in the budget and an increase of 54 positions.

#### **Review of Proposed Budget**

The recommended budget revisions would result in an augmentation of the current budget of \$12.6 million. The proposed budget includes technical adjustments in addition to mid-year budget requests. The following table highlights the proposed mid-year budget.

<b>Proposed Mid-Year 2007-08 Budget</b>	
	<b>Dollars</b> (in millions)
Current Budget	\$316.3
Technical Adjustments	1.9
Budget Requests	10.7
<b>Revised 2007-08 Budget</b>	<b>\$328.9</b>

### **Technical Adjustments**

The proposed mid-year budget includes \$1.9 million in technical adjustments for general salary increases, incentive compensation, health increases, and other items related to personal services and operating expenses.

### **Mid-Year Budget Requests**

Staff recommends approving \$10.7 million and 54 positions to fund fully-justified budget requests. Of this amount, \$4.9 million is one-time funding.

The mid-year budget requests support CalPERS' Board-approved Strategic Plan goals as follows:

<b>2007-08 Mid-Year Budget Requests by Strategic Goal Categories</b>	
	<b>Dollars</b> (in millions)
<b>Enterprise</b> – Goals I, II, III, IV	\$2.5
<b>Pension</b> – Goals V, VI	3.7
<b>Asset and Liability Management</b> – Goal IX	3.8
<b>Health</b> – Goal X	0.7
<b>Total</b>	<b>\$10.7</b>

Attachment 2 provides a summary of the recommended requests by Strategic Goals.

### **Impact to the 2008-09 and Ongoing Baseline Budget**

The proposed mid-year recommendations will increase the ongoing baseline budget in 2008-09. Taking into account the one-time items recommended as part of this mid-year proposal and the full year cost of the mid-year requests, the net impact in 2008-09 and ongoing is \$11.4 million.

### **Cost Allocation Update**

Staff uses a cost allocation methodology that equitably distributes administrative program costs across CalPERS funds. The methodology classifies CalPERS divisions as *program* or *administrative*. Program division expenses are charged directly to funds they support, while administrative division expenses are allocated to each fund based on the level of support they provide to program divisions. The Fiscal Services Division annually surveys administrative divisions to determine their level of support over the past fiscal year. The survey results are then applied to the current year's budget and expenses to determine each fund's share of administrative costs. Staff completed this year's survey in October 2007. The survey results and the mid-year budget requests were used to calculate the recommended

appropriation levels for each Administrative Budget funding source as shown on Attachment 3.

## **ENTERPRISE PROJECTS BUDGET**

### **Current Budget**

The current budget for the Enterprise Projects is \$83,556,972, which is appropriated for the Pension System Resumption Project. The Enterprise Transition Management (ETM) Initiative is being added to the Enterprise Projects Budget for 2007-08.

### **Proposed Budget**

The PSR Project and the ETM Initiative are requesting a total of \$18.4 million to fund their projects, which is a 22 percent augmentation from the current year's allotment.

- The PSR Project is requesting a total increase of \$8.2 million, as follows: \$4.4 million is to fund 58 temporary help positions to focus on identifying, analyzing, and correcting existing CalPERS data problems now in preparation for the major data conversion effort that lies ahead; \$2.1 million in funding to backfill behind division staff that provide support to the PSR Project; and \$1.7 million for consultant oversight, software licenses, document management and legal services.
- The ETM Initiative is requesting \$10.2 million for transition management services, oversight consultant services, training, and equipment. ETM will provide supportive staff services during the transition to a new business environment and the implementation of the PSR Project.

In summary, the proposed adjustment to the Enterprise Projects Budget for 2007-08 is \$18.4 million, bringing the total budget to \$101,925,972.

## **V. STRATEGIC PLAN:**

This item is not a specific product of the Strategic Plan. It is brought to the Finance Committee and the full Board of Administration to satisfy the following requirements: (1) obtain approval of 2007-08 mid-year budget revisions; and (2) fulfill Budget Act control language requirements.

**VI. RESULTS/COSTS:**

CalPERS 2007-08 Administrative Budget of \$316,306,948 will increase by \$12,610,000, or 4.0 percent, to \$328,916,948. The Enterprise Projects Budget of \$83,556,972 will increase by \$18,369,000, or 22 percent, to \$101,925,972. The recommendations contained in this agenda item will take effect upon the approval of the second reading by the Board of Administration at the December 19, 2007 meeting.

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Attachments